

EMERGENCY COMMUNICATIONS DISTRICT
OF THE CITY OF KINGSPORT, TENNESSEE

COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

EMERGENCY COMMUNICATIONS DISTRICT
OF THE CITY OF KINGSPORT, TENNESSEE

COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

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INTRODUCTORY SECTION

EMERGENCY COMMUNICATIONS DISTRICT
OF THE CITY OF KINGSPORT, TENNESSEE

PRINCIPAL OFFICIALS

AS OF JUNE 30, 2012

BOARD OF DIRECTORS

Jim Keesling
John Moser
Farris Jackson
Vivian Crymble
Kenneth Calvert
Conner Caldwell
Craig Dye
Gale Osborne
Hunter Wright

Chairman
Vice-Chairman
Secretary
Treasurer
Director
Director
Director
Director
Director

MANAGEMENT

Jerry Mowl

Joe May

Communications Manager

Attorney

EMERGENCY COMMUNICATIONS DISTRICT
OF THE CITY OF KINGSPORT, TENNESSEE

BOARD MEMBER ADDRESSES

PANEL ENDING 1-1-2013

Farris Jackson
110 Periwinkle Place
Kingsport, TN 37660
343-7755 (H)
343-7714 (Fax)
612-7755 (Cell)
farris@chartertn.net

Jim Keesling
712 Chippendale
Kingsport, TN 37660
378-5055 (H)
914-6055 (Cell)

PANEL ENDING 1-1-2014

John Moser
413 Arlington Court
Kingsport, TN 37663
239-4140 (H)
384-6779 (Cell)
jmoser413@charter.net

Vivian Crymble
2964 Cliffside Rd
Kingsport, TN 37664
378-3782 (H)
817-8682 (Cell)
vcrymble@yahoo.com

PANEL ENDING 1-1-2015

Conner Caldwell
2104 Windy Place
Kingsport, TN 37664
343-8820 (H)
737-7939 (C)
jandccaldwell@chartertn.net

Hunter Wright
4163 Skyland Drive
Kingsport, TN 37664
245-9981 (H)
shhwwright@aol.com

Kenneth Calvert
P.O. Box 2084
Kingsport, TN 37662
392-4465 (H)
245-9721 (W)
677-9777 (C)
lkcalvert@aol.com

By Virtue of Office

Gale Osborne, Chief of Police
200 Shelby Street
Kingsport, TN 37660
229-9423 (W)
224-2786 (Fax)
osborne@ci.kingsport.tn.us

Craig Dye, Fire Chief
130 Island St
Kingsport, TN 37660
229-9444 (W)
384-1911
dye@ci.kingsport.tn.us

MANAGEMENT'S DISCUSSION AND ANALYSIS SECTION

EMERGENCY COMMUNICATIONS DISTRICT
OF THE CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012 AND 2011

As financial management of the Emergency Communications District of the City of Kingsport, Tennessee (the "District"), a component unit of the City of Kingsport, Tennessee, we offer readers of these financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2012. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the financial statements taken as a whole.

Financial Highlights

Operating income for the Emergency Communications District was \$153,437 for fiscal year 2012, compared to \$198,285 for fiscal year 2011 and a loss of \$30,170 for fiscal year 2010. This decrease in 2012 operating income was a result of slightly lower revenues and a significant increase in legal, training, and depreciation expenses. The increase in operating income in fiscal 2011 was a result of higher revenues and lower operating expenses, principally a contract with another government agency. Net income produced an increase in net assets of \$220,193 in 2012, and \$272,767 in 2011. The term "net assets" refers to the difference between assets and liabilities. At the close of the fiscal year 2012, the District had net assets of \$2,703,203, an increase of 9% over the prior year, and at the close of the fiscal year 2011, the District had net assets of \$2,483,010, an increase of 12% over the prior year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's financial statements, which are comprised of the basic financial statements and the notes to the financial statements. Since the District consists of a single enterprise fund, no fund level financial statements are shown. In addition, the District has no infrastructure assets and is therefore exempt from required infrastructure disclosures. This report also contains other supplementary information concerning the District's budget to actual comparisons and certain non-financial information required by the Tennessee Emergency Communications Board.

Basic financial statements: The basic financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private-sector business.

The statement of net assets present information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Net assets increase when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities results in increased net assets which indicates an improved financial position.

The statements of revenues, expenses, and changes in net assets present information showing how the District's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event occurs, regardless of the timing of related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the information provided in the basic financial statements.

Other information: In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information concerning the District's budget to actual comparison and certain non-financial information required by the Tennessee Emergency Communications Board.

Financial Analysis

Net assets may serve, over time, as a useful indicator of an entity's financial position. In the case of the District, assets exceeded liabilities by \$2,703,203 at June 30, 2012. This represents an increase of \$220,193 (9%) over the previous year. The unrestricted net assets were \$2,624,277. At the close of June 30, 2011, assets exceeded liabilities by \$2,483,010 and represented an increase of \$272,767 (12%) over the previous year. The unrestricted net assets were \$2,384,051.

EMERGENCY COMMUNICATIONS DISTRICT
OF THE CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2012 AND 2011

By far, the largest portion of the District's net assets reflects its investment in certificates of deposit. These certificates of deposit are in various local financial institutions all of which are members of the Tennessee State Collateral Pool. Interest rates on these certificates range from 0.20% to 1.15%. Maturity dates range from September, 2012 to August, 2014. Much of the funds invested in certificates of deposits are expected to be used to purchase capital assets over the next few years. The Board considers the upgrade of the 911 system to be an ongoing process to stay current with technological advances.

Emergency Communications District's Net Assets are as follows for the fiscal years ended June 30, 2012, 2011, and 2010.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Current Assets	\$ 2,628,823	\$ 2,388,991	\$ 2,189,857
Capital Assets	<u>78,926</u>	<u>98,959</u>	<u>142,940</u>
Total Assets	2,707,749	2,487,950	2,332,797
Current Liabilities	<u>4,546</u>	<u>4,940</u>	<u>122,554</u>
Net Assets:			
Invested in Capital Assets	78,926	98,959	142,940
Unrestricted	<u>2,624,277</u>	<u>2,384,051</u>	<u>2,067,303</u>
Total Net Assets	\$ <u>2,703,203</u>	\$ <u>2,483,010</u>	\$ <u>2,210,243</u>

Emergency Communications District's Changes in Net Assets are as follows for the fiscal years ended June 30, 2012, 2011, and 2010

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating Revenues	\$ 658,511	\$ 665,698	\$ 625,446
Operating Expenses	<u>505,074</u>	<u>467,413</u>	<u>655,616</u>
Income (loss) from Operations	153,437	198,285	(30,170)
Non-Operating Revenues (Expenses):			
Interest Income	13,997	40,482	47,629
State Grants and Reimbursements	<u>52,759</u>	<u>34,000</u>	<u>34,000</u>
Non-Operating Revenues (Expenses)	<u>66,756</u>	<u>74,482</u>	<u>81,629</u>
Change in Net Assets	220,193	272,767	51,459
Net Assets, Beginning of Year	<u>2,483,010</u>	<u>2,210,243</u>	<u>2,158,784</u>
Net Assets, End of Year	\$ <u>2,703,203</u>	\$ <u>2,483,010</u>	\$ <u>2,210,243</u>

EMERGENCY COMMUNICATIONS DISTRICT
OF THE CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2012 AND 2011

Significant Events

The District purchased new equipment with a cost of \$22,660 in 2010. There was also an increase in the level of annual operational funding of \$31,536 during the year.

In 2011, the City of Kingsport purchased Visioncad software at a cost to the Kingsport 911 of \$117,205.

The District purchased \$31,134 of new hardware and software during 2012.

Cash Flows

Net cash from operating activities during the year ended June 30, 2012, was \$209,984, an increase of \$89,487 from the prior year amount. This increase was principally due to higher operating revenues and reduced expenses. Net cash from noncapital financing activities involving the receipt of monies from grants during the year ended June 30, 2012 were \$24,000. Net cash from capital and related financing activities decreased by \$31,134 of equipment purchases and increased by \$28,759 of grant monies received. Net cash from investing activities for the year ended June 30, 2012, increased by \$51,940 due to interest income earned on savings and CDs.

Net cash from operating activities during the year ended June 30, 2011, were \$120,497 due principally to increased payments for intergovernmental services. Net cash from noncapital financing activities consisted of \$24,000 of state grant monies received. Net cash from financing activities during the year ended June 30, 2011, was an increase of \$10,000 due to grant monies received of \$10,000 and there being no new equipment purchases. Net cash from investing activities for the year ended June 30, 2011, increased by \$36,647 due to interest income earned on savings and CDs.

Budgeting Highlights

The original budgets were approved in June 2011 for the fiscal year ended June 30, 2012; and in June 2010 for the fiscal year ended June 30, 2011, and were amended as needed throughout each year. The original and final budgets are presented as separate columns in the required supplementary information.

Capital Asset and Debt Administration

Capital Assets: The District's investment in capital assets amounts to \$78,926, net of accumulated depreciation as of June 30, 2012, a decrease of \$20,033. Capital assets primarily include communications equipment and computer hardware and software used in 911 communications.

Long-Term Debt: The District had no long-term debt as of June 30, 2012 and 2011, respectively.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Treasurer, Emergency Communications District of the City of Kingsport, Tennessee, Suite 100, 200 Shelby Street, Kingsport, Tennessee 37660.

FINANCIAL SECTION

Lewis & Associates, P.C.

— Certified Public Accountants —

Kenneth L. Lewis, C.P.A.,
President

John F. Hunter, CPA
T. Craig Ratliff, CPA
Wayne Turbyfield, CPA
Jeff Jennings, CPA
Jennifer C. Penix, CPA
Martha Burge, CPA

INDEPENDENT AUDITORS' REPORT

To The Board of Directors
Emergency Communications District
of the City of Kingsport, Tennessee
Kingsport, Tennessee

We have audited the accompanying basic financial statements of the Emergency Communications District of the City of Kingsport, Tennessee, a component unit of the City of Kingsport, Tennessee, as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the Emergency Communications District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Emergency Communications District of the City of Kingsport, Tennessee, as of June 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2012 on our consideration of the Emergency Communications District of the City of Kingsport's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The Management's Discussion and Analysis on pages 3 through 5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



America Counts on CPAs

Princeton Professional Building • 136 Princeton Road • Johnson City, TN 37601
Johnson City: 423-926-5138 or 423-926-6475 • Kingsport: 423-246-4356 • Erwin: 423-743-8692 • Elizabethton: 423-547-3795
Toll Free: 1-877-CPA-4241 • Fax: 423-926-3949 or 423-282-3191 • www.LewisCPAs.com
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Virginia Society of Certified Public Accountants

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Emergency Communications District of the City of Kingsport, Tennessee. The Budgetary Comparison Schedule and Roster of Board Members and Management are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lewis & Associates, P.C.
Lewis & Associates, P.C.

Johnson City, Tennessee
November 15, 2012

EMERGENCY COMMUNICATIONS DISTRICT
OF THE CITY OF KINGSPORT, TENNESSEE
STATEMENTS OF NET ASSETS
JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Current Assets		
Cash-Checking	\$ 1,078,665	\$ 634,262
Cash-Savings and Certificates of Deposit	1,476,158	1,637,012
Accrued Interest Receivable	3,421	41,364
Accounts Receivable	39,422	41,079
Due from TN Emergency Communications Board	18,567	19,475
Prepaid Expenses	<u>12,590</u>	<u>15,799</u>
Total Current Assets	2,628,823	2,388,991
Capital Assets		
Furniture and Fixtures	16,546	16,546
Office Equipment	64,693	64,693
Communications Equipment	639,317	608,183
Other Fixed Assets	<u>28,780</u>	<u>28,780</u>
	749,336	718,202
Less: Accumulated Depreciation	<u>(670,410)</u>	<u>(619,243)</u>
Net Capital Assets	<u>78,926</u>	<u>98,959</u>
Total Assets	<u>\$ 2,707,749</u>	<u>\$ 2,487,950</u>
LIABILITIES		
Current Liabilities		
Accounts Payable	<u>\$ 4,546</u>	<u>\$ 4,940</u>
NET ASSETS		
Invested in Capital Assets	78,926	98,959
Unrestricted Net Assets	<u>2,624,277</u>	<u>2,384,051</u>
Total Net Assets	<u>\$ 2,703,203</u>	<u>\$ 2,483,010</u>

The accompanying notes are an integral part of these financial statements.

EMERGENCY COMMUNICATIONS DISTRICT
OF THE CITY OF KINGSPORT, TENNESSEE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Operating Revenues		
Emergency Telephone Service Charge	\$ 379,131	\$ 381,151
Tennessee Emergency Communications Board Shared Wireless Charge	112,207	117,394
Tennessee Emergency Communications Board Operating Fund	<u>167,173</u>	<u>167,153</u>
Total Operating Revenues	658,511	665,698
Operating Expenses		
Advertising	296	454
Audit Services	5,988	5,971
Accounting Services	7,395	6,895
Administrative Fees	13,762	11,083
Contracts with Government Agency	266,500	265,650
Fees Paid to Service Providers	57,336	59,214
Legal Fees	11,540	-
Maintenance/Communication Equipment	50,343	49,361
Office Supplies	1,456	1,499
Board Meeting Expenses	-	2,312
Dues and Memberships	845	992
Surety Bonds	4,274	3,816
Service Awards	54	-
Travel	12,951	13,073
Training	20,974	3,082
Uncollectible Service Charge	103	30
Other Charges - Uniforms	90	-
Depreciation	<u>51,167</u>	<u>43,981</u>
Total Operating Expenses	<u>505,074</u>	<u>467,413</u>
Operating Income	153,437	198,285
Non-Operating Revenues (Expenses)		
Interest Income	13,997	40,482
Reimbursement TN Emergency Communications Board Grants and Reimbursements	<u>52,759</u>	<u>34,000</u>
Non-Operating Revenues (Expenses)	<u>66,756</u>	<u>74,482</u>
Increase (Decrease) in Net Assets	220,193	272,767
Net Assets, Beginning of Year	<u>2,483,010</u>	<u>2,210,243</u>
Net Assets, End of Year	<u>\$ 2,703,203</u>	<u>\$ 2,483,010</u>

The accompanying notes are an integral part of these financial statements.

EMERGENCY COMMUNICATIONS DISTRICT
OF THE CITY OF KINGSPORT, TENNESSEE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities:		
Receipts from Emergency Telephone Service Charges	\$ 380,788	\$ 365,327
Receipts from TN ECB Shared Wireless Charges	113,115	117,203
Receipts from TN ECB Operating Fund	167,173	167,153
Payments for Contracts with Government Agency	(266,500)	(382,854)
Payments to Service Providers	(57,336)	(59,215)
Payments to Suppliers for Goods and Services	<u>(127,256)</u>	<u>(87,117)</u>
Net Cash Provided (Used) by Operating Activities	209,984	120,497
Cash Flows from Noncapital Financing Activities:		
State Grant and Reimbursement	24,000	24,000
Cash Flows from Capital and Related Financing Activities:		
Purchase of Capital Assets	(31,134)	-
State Grant and Reimbursement	<u>28,759</u>	<u>10,000</u>
Net Cash Flows from Financing Activities	21,625	34,000
Cash Flows from Investing Activities:		
Interest Income	<u>51,940</u>	<u>36,647</u>
Net Cash Provided (Used) by Investing Activities	<u>51,940</u>	<u>36,647</u>
Increase in Cash	283,549	191,144
Cash - Beginning of Year	<u>2,271,274</u>	<u>2,080,130</u>
Cash - End of Year	<u>\$ 2,554,823</u>	<u>\$ 2,271,274</u>
Reconciliation of Operating Income to Net Cash		
Flows from Operating Activities:		
Operating Income (Loss)	\$ 153,437	\$ 198,285
Adjustments to Reconcile Operating Income		
to Net Cash Flows from Operating Activities:		
Depreciation	51,167	43,982
(Increase) Decrease in Accounts Receivable	1,657	(4,741)
(Increase) Decrease in Due from TN ECB	908	(191)
(Increase) Decrease in Prepaid Expenses	3,209	777
Increase (Decrease) in Accounts Payable	<u>(394)</u>	<u>(117,615)</u>
Net Cash Provided by Operating Activities	<u>\$ 209,984</u>	<u>\$ 120,497</u>

The accompanying notes are an integral part of these financial statements.

EMERGENCY COMMUNICATIONS DISTRICT
OF THE CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

The Emergency Communications District of the City of Kingsport, Tennessee was created by a referendum held on January 11, 1994, the results of which were certified on January 20, 1994, as required by Tennessee Code Annotated Title 7 Chapter 86 "Emergency Communications District" section 7-86-104. The purpose of the Emergency Communications District is to oversee the operations of the 911 emergency telephone services for the city. The Board consists of nine members, all of whom are appointed by the Board of Mayor and Aldermen of the City of Kingsport, Tennessee.

Reporting Entity

The criteria set forth in Governmental Accounting Standards Board Statement 14 *The Financial Reporting Entity* were used to determine that the Emergency Communications District is a component unit of the City of Kingsport, Tennessee. The basic, but not the only, criterion for including a potential component unit within the primary government's reporting entity is the primary government's financial accountability for the potential component unit. A primary government is financially accountable if it appoints a voting majority of the organization's governing body and it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government. The Board of Mayor and Aldermen of the City of Kingsport appoint all nine members of the Board of Directors of the Emergency Communications District of the City of Kingsport, Tennessee. Traditionally, two of the Board members are employees of the City of Kingsport who serve on the Board as part of their duties as Police Chief and Fire Chief. In addition, all personnel performing the daily operations of the Emergency Communications District are employees of the City of Kingsport. The City of Kingsport therefore has the ability to impose its will on the Emergency Communications District of the City of Kingsport. Based upon the application of these criteria, the Emergency Communications District is a component unit of the City of Kingsport, Tennessee.

Basis of Accounting

The financial statements of the Emergency Communications District have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred. As required by Governmental Accounting Standards Board Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting", the Emergency Communications District follows all GASB pronouncements and FASB Statements issued on or before November 30, 1989 except those that conflict with a GASB pronouncement. The District follows only GASB guidance issued after November 30, 1989 and does not follow any FASB guidance issued after that date.

Income Taxes

The Emergency Communications District is an agency organized and existing pursuant to the provisions of Tennessee Code Ann. 7-86-101 which is exempt from federal income taxes pursuant to 26 USC 115 relating to income of states, municipalities, etc.

Revenue

The Emergency Communications District receives the service charges billed and collected by telephone companies operating within the District's area of responsibility directly from those telephone companies. The State of Tennessee collects and remits a percentage of wireless charges to the District.

Expenses

The City of Kingsport, Tennessee provides the physical facilities, employees, and administrative services necessary to operate the District on a contractual fee basis.

EMERGENCY COMMUNICATIONS DISTRICT
OF THE CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash

For purposes of the Statement of Cash Flows, the Emergency Communications District considers all bank deposits to be cash. Bank balances exceeding Federal Deposit Insurance Corporation insurance limits are collateralized by the Tennessee State Collateral Pool.

Depreciation

Depreciation of capital assets is charged as an expense against operations and accumulated depreciation is reported on the balance sheet. Depreciation has been provided over the useful lives using the straight-line method of depreciation.

Uncollectibles

Uncollectibles are deducted from the service charges collected by the telephone companies and represent uncollected service charges from disconnected customers.

Concentrations of Credit Risk

Financial instruments that potentially subject the Emergency Communications District to concentrations of credit risk are primarily cash and accounts receivable. The District's bank deposits, including certificates of deposit, are maintained in banks participating in the Tennessee Collateral Pool for Public Deposits and, consequently, are fully insured. Management does not believe that significant credit risk exists at June 30, 2012.

NOTE 2—CASH AND INVESTMENTS

At June 30, 2012 and 2011, total demand deposits and certificates of deposit for the Emergency Communication District were insured and/or collateralized in one of the following ways. Deposits were insured by the FDIC. Deposits in excess of FDIC limits were held in financial institutions, which are members of the Tennessee Bank Collateral Pool. The Tennessee Bank Collateral Pool (the pool) is a multiple financial institution collateral pool in which member financial institutions holding public funds pledge collateral securities. In the event any member financial institution fails, the entire collateral pool becomes available to satisfy the claims of governmental entities. The pool also has the ability to make additional assessments on a pro rata basis to the pool if the value of collateral is inadequate to cover a loss. The District's deposits in financial institutions were entirely insured or collateralized at June 30, 2012 and 2011.

At June 30, 2012, the District's carrying amount of deposits was \$2,225,823 and the bank balance was \$2,227,481. At June 30, 2011, the District's carrying amount of deposits was \$2,271,274 and the bank balance was \$2,339,150.

EMERGENCY COMMUNICATIONS DISTRICT
OF THE CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 3—PROPERTY, PLANT, AND DEPRECIATION

Capital Assets activity for the year ended June 30, 2012 was as follows:

	June 30, 2011	Additions	Deletions	June 30, 2012
Furniture & Fixtures	\$ 16,546	\$ -	\$ -	\$ 16,546
Office Equipment	64,693	-	-	64,693
Communications Equipment	608,183	31,134	-	639,317
Other Fixed Assets	<u>28,780</u>	<u>-</u>	<u>-</u>	<u>28,780</u>
Total	718,202	31,134	-	749,336

Less Accumulated Depreciation:

Furniture & Fixtures	12,059	1,538	-	13,597
Office Equipment	45,937	11,604	-	57,541
Communications Equipment	535,037	35,455	-	570,492
Other Fixed Assets	<u>26,210</u>	<u>2,570</u>	<u>-</u>	<u>28,780</u>
Total Accumulated Depreciation	<u>619,243</u>	<u>51,167</u>	<u>-</u>	<u>670,410</u>
Net Capital Assets	\$ <u>98,959</u>	\$ <u>(20,033)</u>	\$ <u>-</u>	\$ <u>78,926</u>

Capital Assets activity for the year ended June 30, 2011 was as follows:

	June 30, 2010	Additions	Deletions	June 30, 2011
Furniture & Fixtures	\$ 16,546	\$ -	\$ -	\$ 16,546
Office Equipment	64,693	-	-	64,693
Communications Equipment	608,183	-	-	608,183
Other Fixed Assets	<u>28,780</u>	<u>-</u>	<u>-</u>	<u>28,780</u>
Total	718,202	-	-	718,202

Less Accumulated Depreciation:

Furniture & Fixtures	10,521	1,538	-	12,059
Office Equipment	33,350	12,587	-	45,937
Communications Equipment	509,035	26,002	-	535,037
Other Fixed Assets	<u>22,356</u>	<u>3,854</u>	<u>-</u>	<u>26,210</u>
Total Accumulated Depreciation	<u>575,262</u>	<u>43,981</u>	<u>-</u>	<u>619,243</u>
Net Capital Assets	\$ <u>142,940</u>	\$ <u>(43,981)</u>	\$ <u>-</u>	\$ <u>98,959</u>

EMERGENCY COMMUNICATIONS DISTRICT
OF THE CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 4—INSURANCE

The capital assets of the Emergency Communications District are insured by the City Of Kingsport's Blanket Insurance Policy. However, the City has a \$50,000 deductible on each loss per occurrence. The City is self-insured regarding the \$50,000 deductible. In addition, the Emergency Communications District is listed as an additional named insured on the City of Kingsport's general liability policy. There were no settlements in excess of insurance coverage related to the Emergency Communications District for the year ended June 30, 2012 or for any of the four preceding years.

NOTE 5—SURETY BOND

The Emergency Communications District maintains a surety bond for \$500,000 on their treasurer, \$100,000 for the chair, and \$100,000 for the other three board members who are authorized to sign checks. These policies run on a calendar year.

SUPPLEMENTAL INFORMATION SECTION

EMERGENCY COMMUNICATIONS DISTRICT
OF THE CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance</u>
Operating Revenues				
Emergency Telephone Service Charge	\$ 340,000	\$ 340,000	\$ 379,131	\$ 39,131
TN ECB Shared Wireless Charge	112,000	112,000	112,207	207
TN ECB Operating Fund	167,000	167,000	167,173	173
Other Income	100	-	-	-
Total Operating Revenues	<u>619,100</u>	<u>619,000</u>	<u>658,511</u>	<u>39,511</u>
Operating Expenses				
Advertising	2,500	2,500	296	2,204
Audit Services	8,000	9,000	5,988	3,012
Accounting Services	7,500	8,500	7,395	1,105
Administrative Fees	12,000	13,000	13,762	(762)
Contracts with Government Agency	383,000	373,000	266,500	106,500
Fees Paid to Service Providers	60,000	62,000	57,336	4,664
Legal Fees	6,000	16,000	11,540	4,460
Maintenance/Communication Equipment	70,000	70,000	50,343	19,657
Mapping/Database Consultants	2,500	2,500	-	2,500
Other Consultants	2,500	2,500	-	2,500
Office Supplies	2,500	2,500	1,456	1,044
Postage	150	150	-	150
Board Meeting Expenses	4,000	4,000	-	4,000
Dues and Memberships	5,000	5,000	845	4,155
Surety Bonds	5,500	5,500	4,274	1,226
Service Awards	2,000	2,000	54	1,948
Training	24,000	24,000	20,974	3,026
Travel	20,000	20,000	12,951	7,049
Other Charges	1,000	1,000	90	910
Uncollectable service charge	2,000	2,000	103	1,897
Depreciation	87,000	87,000	51,167	35,832
Total Operating Expenses	<u>707,150</u>	<u>712,150</u>	<u>505,074</u>	<u>207,077</u>
Operating Income	<u>(88,050)</u>	<u>(93,150)</u>	<u>153,437</u>	<u>246,588</u>
Non-Operating Revenues (Expenses)				
Interest	25,000	25,000	13,997	(11,003)
Reimbursement TN Emergency Communications Board				
Grants and Reimbursements	<u>25,000</u>	<u>25,000</u>	<u>52,759</u>	<u>27,759</u>
Non-Operating Revenues (Expenses)	<u>50,000</u>	<u>50,000</u>	<u>66,756</u>	<u>16,756</u>
Net Income	<u>\$ (38,050)</u>	<u>\$ (43,150)</u>	<u>\$ 220,193</u>	<u>\$ 263,344</u>

See independent auditors' report.

EMERGENCY COMMUNICATIONS DISTRICT
OF THE CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance</u>
Operating Revenues				
Emergency Telephone Service Charge	\$ 350,000	\$ 350,000	\$ 381,151	\$ 31,151
TN ECB Shared Wireless Charge	120,000	112,000	117,394	5,394
TN ECB Operating Fund	167,000	167,000	167,153	153
Other Income	100	100	-	(100)
Total Operating Revenues	<u>637,100</u>	<u>629,100</u>	<u>665,698</u>	<u>36,598</u>
Operating Expenses				
Advertising	1,500	1,500	454	1,046
Audit Services	6,000	7,000	5,971	1,029
Accounting Services	5,000	7,000	6,895	105
Administrative Fees	12,000	12,000	11,083	917
Contracts with Government Agency	383,000	383,000	265,650	117,350
Fees Paid to Service Providers	52,000	60,000	59,214	786
Legal Fees	3,500	5,000	-	5,000
Maintenance/Communication Equipment	70,000	70,000	49,361	20,639
Mapping/Database Consultants	2,500	2,500	-	2,500
Other Consultants	2,500	2,500	-	2,500
Office Supplies	2,500	2,500	1,499	1,001
Postage	100	100	-	100
Board Meeting Expenses	4,000	4,000	2,312	1,688
Dues and Memberships	5,000	5,000	992	4,008
Surety Bonds	4,000	5,000	3,816	1,184
Service Awards	2,000	2,000	-	2,000
Travel	20,000	20,000	13,073	6,927
Training	10,000	10,000	3,082	6,918
Other Charges	1,000	1,000	-	1,000
Uncollected Service Charges	2,000	2,000	30	1,970
Depreciation	<u>87,000</u>	<u>87,000</u>	<u>43,981</u>	<u>43,019</u>
Total Operating Expenses	<u>675,600</u>	<u>689,100</u>	<u>467,413</u>	<u>221,687</u>
Operating Income	(38,500)	(60,000)	198,285	258,285
Non-Operating Revenues (Expenses)				
Interest	25,000	25,000	40,482	15,482
Reimbursement TN Emergency Communications Board Grants and Reimbursements	<u>25,000</u>	<u>25,000</u>	<u>34,000</u>	<u>9,000</u>
Non-Operating Revenues (Expenses)	<u>50,000</u>	<u>50,000</u>	<u>74,482</u>	<u>24,482</u>
Net Income	<u>\$ 11,500</u>	<u>\$ (10,000)</u>	<u>\$ 272,767</u>	<u>\$ 282,767</u>

See independent auditors' report.

INTERNAL CONTROL AND COMPLIANCE SECTION

Lewis & Associates, P.C.

— Certified Public Accountants —

Kenneth L. Lewis, C.P.A.,
President

John F. Hunter, CPA
T. Craig Ratliff, CPA
Wayne Turbyfield, CPA
Jeff Jennings, CPA
Jennifer C. Penix, CPA
Martha Burge, CPA

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Emergency Communications District
of the City of Kingsport, Tennessee

We have audited the financial statements of the Emergency Communications District of the City of Kingsport, Tennessee as of and for the years ended June 30, 2012 and 2011 and have issued our report thereon dated November 15, 2012. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing the audit of the financial statements of the Emergency Communications District of the City of Kingsport as of and for the years ended June 30, 2012 and 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the Emergency Communications District of the City of Kingsport, Tennessee's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Emergency Communications District of the City of Kingsport, Tennessee's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Emergency Communications District of the City of Kingsport, Tennessee's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the second paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses.



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Princeton Professional Building • 136 Princeton Road • Johnson City, TN 37601
Johnson City: 423-926-5138 or 423-926-6475 • Kingsport: 423-246-4356 • Erwin: 423-743-8692 • Elizabethton: 423-547-3795
Toll Free: 1-877-CPA-4241 • Fax: 423-926-3949 or 423-282-3191 • www.LewisCPAs.com
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Virginia Society of Certified Public Accountants

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Emergency Communications District of the City of Kingsport, Tennessee's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, the audit committee, others within the organization, and the State of Tennessee Comptroller of the Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Lewis & Associates, P.C.
Lewis & Associates, P.C.
Johnson City, Tennessee

November 15, 2012